

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

915 CAPITOL MALL, ROOM 485

SACRAMENTO, CA 95814

TELEPHONE: (916) 654-6340

FAX: (916) 654-6033

William J. Pavão  
*Executive Director***MEMBERS:**Bill Lockyer, Chair  
*State Treasurer*Michael C. Genest, Director  
*Department of Finance*John Chiang  
*State Controller*

DATE: June 15, 2007  
TO: Low Income Housing Tax Credit Stakeholders  
FROM: William J. Pavão, Executive Director  
SUBJECT: Draft Proposed Change to Program Basis Limits

Pursuant to public forums held this past March and April, the Tax Credit Allocation Committee (TCAC) staff has developed a draft set of basis limits using a new methodology. Attached is a memorandum from TCAC Program Analyst Adrian Ownby describing the methodology used to develop the new limits. Staff is using data that is more relevant than the federal Section 221(d)(3) limits to establish reasonable development cost maximums for establishing basis limits. You will also note the following key features to the proposed methodology:

**TCAC Portfolio as Cost Data Source**

Staff has used adjusted cost data from over 1,000 new construction 9 percent and 4 percent tax credit projects awarded from 1997 through 2006. Most of the data comes from certified cost reporting generated at placed-in-service, supplemented with development cost estimates received in more recent applications. Staff has adjusted prior-year figures to account for rising development costs over time.

**Average (Mean) plus One Standard Deviation as Limit**

In essence, staff has identified the average (mean) cost of projects developed within a county and calculated one standard deviation (SD) above that mean as the new basis limit. Roughly 83 percent (83%) of the projects within the data set would have costs below one (SD) above the arithmetic mean. That is, on average about 17 percent (17%) of projects would have basis in excess of the new proposed limit. By comparison, in 2007 41 percent (41%) of the nine percent applications had basis exceeding the program's basis limits. The proposed method would significantly reduce the current number of 9% tax credit projects with basis exceeding program limits. In the aggregate, the new proposed methodology would not dramatically affect 4% basis limits currently receiving the 120% basis limit boost.

**Limits Expressed by County, Defaulting to the Region as Minimum**

The proposed new methodology would continue to express limits by county, but has also taken into account regional costs. Counties having lower mean costs per-square-foot than the relevant TCAC region's mean as a whole have been assigned the regional limit rather than the lower county limit.

### **Basis Limits Expressed by Square Footage**

Unlike the current per-bedroom basis limit expression, staff is proposing to express limits by dollar per-square-foot of non-commercial structures. This information is currently provided within the TCAC application within Part V.D.5., Project Unit Number and Square Footage. Staff believes this method more accurately accounts for project variations in configuration and size.

### **Ongoing Exceptions to Threshold Basis Limits**

TCAC staff envisions the various basis limit boosts in Section 10327((c)(5)(A) and (B) to continue. However, the new basis methodology would eliminate the need for the boosts found at Section 10327(c)(5)(C) and (D). That is, the conditioned boosts for 4% tax credit projects, and 9% tax credit projects in regions chronically hitting their basis limits would be eliminated. The other feature-based boosts would remain.

### **Request of Program Users**

TCAC staff asks that interested parties use the proposed basis limits described in the attached table, and apply them to recent or pending projects. Compare the proposed new method with the current method to discover the impact upon actual projects. If you wish to provide us with your thoughts, please e-mail your comments to Adrian Ownby at [aownby@treasurer.ca.gov](mailto:aownby@treasurer.ca.gov). Adrian will compile and evaluate comments as we fine-tune the proposed methodology.

Thank you in advance for your interest and help in this matter.